Barrier Grouping 7

Electric Utility Regulatory Structure

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INTRODUCTION

Across the nation, a critical issue facing the regulated electric utility industry is how to accommodate competition. As has been the case in telecommunications, the regulated monopolies are confronting technological and administrative efficiencies which permit non-utility competitors to offer cheaper and ostensibly better services to consumers.

National grid interconnection has made any seller's surplus capacity a source of alternate power for any jurisdiction that is prepared to purchase and transmit such electricity. Since consequent savings can presumably passed on to consumers, regulators have embraced "wheeling" as a means by which efficiencies in generation might directly benefit the ratepayer. Wheeling generally takes two forms. In "wholesale" wheeling regulated utilities are compelled to purchase and transmit the lowest price available power even if this means that utility owned generation facilities are not utilized or are underutilized. Utilities are thus threatened to be left with "stranded" assets if the costs associated with such utility owned capacity might not be effectively recovered.

In "retail" wheeling, in a situation analogous to inter-lata telecommunications (and increasingly, intra-lata service as well), consumers would be provided with the opportunity to contract directly with providers other than the local utility. The local utility's role would then be reduced to providing access and transmission of such consumer purchased power. Optimally the utility would receive a fair (but not prohibitive) compensation for such access and transmission. Transmission facilities would remain subject to regulation. Access and use of the transmission infrastructure would be mandated since duplication would be wastefully redundant and their development was a product of ratepayer assured returns on investment.

Hawaii has not yet become a part of this trend, largely because our grids are not interconnected so surplus capacity or economies of scale are not accessible to our systems. So, for the most part, the evolution taking place on the mainland is not likely to effect our utilities for quite some time.

Proponents maintain that the concept of retail wheeling is of potential benefit to the use of renewables. In this view, the utility monopolies are barriers between potentially willing sellers and buyers of power generated by renewable energy systems. Today, even if there is a willing buyer and seller for the direct transmission and use of such power, there is simply no regulatory vehicle for the consummation of a transaction. The opponents opposition to retail wheeling makes a fairly negotiated resolution improbable. Proponents therefore argue that regulation should both permit and facilitate "retail wheeling", at least insofar as it applies to renewables.

Opponents of retail wheeling maintain that (1) before including retail wheeling as a possible strategy to encourage the development of renewable resources, the pros and cons of retail wheeling must be examined in their broader context,[1] (2) there has been no demonstration that RE power can compete with fossil-fueled power in an open-access market,[2] and (3) retail wheeling could result in "cream skimming" by the non-utility providers (i.e., high volume/high profit markets might be skimmed by non-utility providers thereby leaving the utility, and its residential and small business customers, with the economic burden of ensuring the capacity and infrastructure to less profitable markets).[3]

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1 Numerous issues have been raised in other jurisdictions, including: (1) jurisdictional issues (e.g., whether there are any federal limitations on the state's authority to require retail wheeling, whether there are any limitations to a state's authority to regulate price, terms, and conditions of retail service in a retail competitive market); (2) technical issues (e.g., impact of electrical utility restructuring on system reliability, ensuring power quality in a restructured industry); (3) long range planning issues (e.g., how the benefits of integrated resource planning would be delivered in a restructured industry, whether efforts should be made to perform long-range planning and minimize long-run costs under a model which includes retail competition); (4) energy efficiency and renewable energy issues (e.g., how energy efficiency should be delivered in a restructured industry, strategies to overcome market barriers to cost-effective energy efficiency and renewable generation in a restructured industry); (5) public interest issues (e.g., universal service at reasonable rates should be a goal in the restructured industry, what is the best method to avoid or mitigate negative environmental impacts in a restructured industry); and (6) transition issues (e.g., what is the role of the Commission in managing change in the electric industry, how should stranded costs and other transition costs be treated, strategies needed to ensure customer protection during and after transition, how long will the transition take). - See, e.g., RE Structural and Regulatory Issues in the Electric Utility Industry, 160 Pub. Util. Rep. 4th 506 (Minn. PUC May 1995), Re Emerging Competition in the Electric Utility Industry, 159 Pub. Util. Rep. 4th 341 (Iowa PUC Feb. 1995).

2 The same barriers that impact sales to utilities (cost, characterization and reliability of the power, etc.) could impact direct customer purchases, and direct customers would incur the additional costs (for standby power, etc.) necessary to mitigate the rises and uncertainties of dealing directly with the renewable developer.

3 This could result in higher costs to such markets without providing them with any meaningful access to the benefits of competition.

Barrier 7.a — Absence of renewable specific retail wheeling mechanisms or opportunities.

DEFINITION:

Direct sale "retail wheeling" of renewables is viewed as a possible means of facilitating consumer access to renewable power.

DISCUSSION:

During the first round of integrated resource planning, the utilities' preferred integrated resource plans did not include new RE resources, whether owned by the utilities or by NUGs. See discussion under barrier 5.e.

With respect to retail wheeling, proponents of these strategies maintain that a renewable-specific retail wheeling mechanism would facilitate utility consideration of renewables because of (1) the desire to avoid competition would provide an incentive to the utilities; (2) the existence of any such mechanism would have to be accommodated in their plans; and (3) actual competition resulting from wheeling would have to be acknowledged and addressed.

Proponents further maintain that there has been no demonstrated need to date for retail wheeling of renewable energy because there has been no mechanism in place which would allow this. A demand for such wheeling is quite feasible if the supplier is able to deliver this power to an and-user at a cost below the current retail utility rate, but above the avoided energy cost price offered by utilities.

Opponents maintain that (1) that in an incorrect perception that renewable projects will not be developed unless they are included in the utilities' IRP plans; (2) the claimed benefits of wheeling for RE development are entirely speculative; (3) wheeling, in general being price sensitive, would harm, rather than facilitate the use of renewables; and (4) since the PUC has already indicated that they will be considering electrical utility competition, the issue would be better considered in that docket.

STRATEGIES: Potential strategies include, but are not limited to:

Strategy 7.a.1 Include in the framing of the electric utilities competition docket specific issues relating to providing renewable developers with reasonable terms and conditions regarding access, access charges, net billing etc.

VEHICLE: PUC electric utilities competition docket.

AGENCY: PUC

POSITION OF THE PARTIES:

PROPONENTS: d, p, w, n, krl, i, h, m, ki, ers, r

OPPONENTS:

NO POSITION: heco, ke, ca

Strategy 7.a.2 Instead of forcing the utility to invest in or buy energy from renewable energy sources, NUGs should be allowed to transmit and distribute renewable energy to consumers who are willing to pay the price.

VEHICLE: A docket should be opened by the PUC to investigate or the commission should initiate a rulemaking proceeding.

AGENCY: PUC

POSITION OF THE PARTIES:

PROPONENTS: d, r, p, w, n, krl, i, z

OPPONENTS: heco, ke

NO POSITION: ki, h, m, ca

Strategy 7.a.3: Permit county governments to engage in renewable specific retail wheeling.

DISCUSSION:

See discussion under Strategy 1.b.6.

POSITION OF THE PARTIES:

PROPONENTS: d, p, ki, m, h, w, n, krl, i, ers, r

OPPONENTS: heco, ke

NO POSITION: ca